

1. Introduction

Mr. Speaker Sir and Honourable Members of the County Assembly, I am honoured yet again to present before this August House a report on the County Fiscal Strategy Paper 2018.

It should be noted that the County Fiscal Strategy Paper is a crucial document in the county annual budget cycle and a harbinger of the county's fiscal strategy over the medium term. Thus much thought and care needs to be put in its drafting so as to guide the county government's operations and by extension the welfare of the public at large.

My committee has perused the documents and checked on the facts, figures and the analysis thereof and is convinced that it is a good document with the exception of a few areas which we have recommended rectification.

We would like to commend the County Treasury, the County Executive Committee and all those staff involved in the compilation of the document.

Mr. Speaker Sir let me now present to members of this Honourable House the report of the review of the *Mombasa County Fiscal Strategy Paper 2018* for consideration and adoption.

2. Observations and Findings

2.1 Section 117 of the County Governments Act, 2012, Regulations 25 to 28 of the Public Finance Management Regulations, 2015 and Standing Order 206 of the county assembly provides for the preparation, approval and submission to the county assembly of the County Fiscal Strategy Paper annually give guidelines and stipulations on its preparation.

2.2 Among the requirements provided for preparation of the County Fiscal strategy Paper as contained in the cited legislation is adherence to the fiscal responsibility principles, expenditure ceilings and medium term expenditure framework. The regulations require that the document contain overall departmental expenditure ceilings. All this is geared towards guiding the preparation of the annual county government budget which is required to be tabled in the county assembly by April 30 of every year. The County Fiscal Strategy Paper is to be approved by the county executive committee and tabled in the county assembly by February 28 annually and approved by the House not later than 14 days thereafter.

- 2.3 The *Mombasa County Fiscal Strategy Paper 2018* draws inspiration from various policy documents including the National Government's Budget Policy Statement, the Mombasa County Intergrated Development Programme among others including previous annual editions of the same.
- 2.4 The document has in several areas picked from the Budget Policy Statement and gave a glimpse into the macro-economic environment and economic outlook over the upcoming financial year and the medium term. For example it cites economic growth to be forecast at 7% due to investments in the Big Four agenda of the National government which is hinged on mega capital infrastructure projects and manufacturing among others and is aimed at spurring the economy and spurring public expenditure. Other information on inflation, ease-of-doing business and economic growth has been given which point to modest and stable outlook despite challenges occasioned by a mixture of factors including the recent divisive general elections.
- 2.5 The section on the CFSP Overview (*Pg. 1*) gives the key county proposed priority area as:
- a. Increased accessibility to water.
 - b. Improved health services.
 - c. Provision of quality education.
 - d. Youth, sports and gender empowerment.
 - e. Improved land services.
 - f. Investing in infrastructure development.

However, in terms of budgetary allocations and ceilings over the medium term and in the next financial year the prioritization does not match the same as some priorities have been allocated higher amounts and vice-versa.

Furthermore, the document does not give criteria used to arrive at the priorities and how those priorities differ with those of the previous financial year and other years. There is also no analysis of successes or failures in implementing priorities over the course of the previous years.

- 2.6 At the county level, the county budget for fiscal 2017/2018 comprised of Kshs. 12.5 billion expenditure estimates to be financed by Kshs.3.5 billion local revenue and Kshs.9 billion equitable share from the exchequer. Budget implementation in the first half of the financial year pointed to dismal performance especially in terms of low local revenues collected and low receipts for equitable share. This is attributed partly to the subdued economic environment faced by the country resulting in low revenue collection at both levels of government. Consequently this situation has

impacted on operational and development expenditure and is likely to affect the absorption capacity as we near the end of the financial year.

- 2.7 A table of local revenue realized over four years(2013 to 2017) has been given on Pg. of the document plus a brief narrative for first-half fiscal year 2017/2018. A comparison of budget against actual income has also been given though no variances have been provided. For the half of the FY 2017/2018 a total of Kshs.4,061,843,371/=(Kshs.3,483,583,109/= exchequer issues(38%) and Kshs. 578,260,262/=(16.5%) local revenue) was received. This represents 32.4% of budgeted revenue for the financial year. A year-on-year independent analysis reveals revenue realization in percentage terms to be 21.9%,48.7%,71% and 60% respectively for the four full financial years since 2013. Total revenue received upto 31st December 2017 was Kshs.14,380,073,995/= against budgeted total of Kshs. 17,116,707,729/= representing a realization of 84%. Exchequer issues were realized at 81.9%(Actual - Kshs.23,387,678,402/= Budgeted – Kshs.30,188,140,880/=)while local revenue was realized at 42%(Actual - Kshs.10,896,490,886/= Budgeted – Kshs.25,906,454,733/=) over the course of the four previous financial years and first half of the current financial year.
- 2.8 Budget performance for the first half of FY 2017/2018 as provided for in the first half of the financial year(Table 4) shows revenues of Kshs. 3,483,583,109/= against expenditures of Kshs.3,435,899,096/= resulting in a Kshs.47,684,013/= surplus. What lacks in these figures is the impact of these figures to the well-being of the county citizens and whether the programmes goals were realized. There is need for such information to be included in the future,
- 2.9 On expenditure for the first half of FY 2017/2019 – Compensation to employees was 49%,Miscellaneous expenses – 25%,Acquisition of assets at 12%,Use of goods and services at 9%,transfers to other government units at 4% and other grants and transfers at 1%. This classification of expenditure however is not very informative as it does not provide sectoral aggregation of expenditure to be able to know how expenditure in those areas is fairing. There is also need to classify the expenditure data into recurrent and development and budget performance by programme.
- 2.10The document is well illustrated with tables, charts and accompanying narratives showing budget performance, ceilings and other data on an annual, departmental and categorized accordingly. However, there is lack of comparative data analysis on annual basis per department and programme to enable an informed decision and tracking of the expenditure over the years. A brief narrative of the strategic interventions, risks and outlook over the medium-term has been given. On the matter of risks however, the document does not explain the method used to assess and arrive at the same and whether such methods were objective.

2.11 Table 2 on Page 23 of the document provides fiscal projections over the medium-term (three years) from FY 2016/2017 to 2018/2019 and is produced hereunder for perusal.

Table 2 : County Government Fiscal projections 2016/17- 2018/19

Revenue Source	2016/2017	2017/2018	2018/2019
National Government - Equitable Share	5,608,593,922	8,154,000,000	8,148,142,372
Conditional allocation - Level 5 Hospital	369,942,197	388,439,306	388,439,306
Conditional allocation - Free maternal health care	125,722,505	-	-
Leasing of medical equipment	95,744,681	95,744,681	129,787,234
DANIDA - Health care support services	3,150,000	-	-
Conditional Grant-compensation For User Fees Forgone	23,514,312	23,385,934	23,385,934
Conditional Grant-Road Maintenance Fuel Levy	86,176,009	221,466,275	216,604,479
Conditional Grant-Other Loans and Grants	16,000,000	57,616,806	130,671,225
Kenya Devolution Support Program	-	49,809,062	-
Agriculture Sector Development Support Program II	-	13,400,000	-
Conditional Allocation for development of Youth Polytechnics	-	30,586,320	39,043,936
Total exchequer issues	6,328,843,626	9,034,448,384	9,076,074,486
Capacity and Performance Grant (World Bank)	29,106,112	-	-
Total Local revenue	3,567,804,555	3,500,000,000	3,885,000,000
Total Expenditure	9,925,754,293	12,534,448,384	12,961,074,486
Total Recurrent	6,749,512,919	8,571,878,715	8,863,777,448
Total Development	3,176,241,374	3,962,569,669	4,097,297,038

Our view is that the fiscal projections should be for the next financial year-2018/2019 and the next two financial years thereafter (the medium term) and necessary amendments to the document should be done accordingly.

2.12 Projected revenues and expenditures for FY 2018/2019 are given on Table 4(Page 31) and are illustrated herebelow:

Table 4: Projected FY 2018/2019 Revenues and Expenditure

REVENUE/EXPENDITURE PROJECTIONS	2018/2019 (KSHS.)
National Government Equitable Share	8,148,142,372
Conditional Grants	927,932,114
Total Exchequer Issues	9,076,074,486
County Local Sources	3,885,000,000
Total Revenue	12,961,074,486
Expenditure	
Personnel	5,009,828,718
Operations Repair and Maintenance	3,853,948,730
Capital Expenditure	4,097,297,038
Total Expenditure	12,961,074,486
Surplus/(Deficit)	0

The table while giving a snapshot of the budget over the next financial year fails to give adequate information on the same.

2.13 Departmental expenditure ceilings of the County Executive and the County Assembly are provided on Table 9 (Page 32) with overall sources of revenue and are given in the schedule annexed hereto. The Committee approved and recommended the same to the county assembly for adoption.

On Table 5 and 6, ceilings have been set for the medium term but erroneously the start year used was 2017/2018 instead of 2018/2019. Figures for the last financial year of the medium term have been omitted. This should be corrected accordingly.

2.14 Standing Order 206(2) stipulate that the County Fiscal Strategy Paper:

- (a) have been aligned with the national objectives in the Budget Policy Statement.
- (b) specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term.
- (c) include the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.
- (d) have taken into account the views of the Commission on Revenue Allocation, the public; any interested persons or groups and any other forum that is established by legislation.

While some evidence of compliance for the other items of the standing order, none could be found for items a) and e) of the same and this needs to be corrected.

3. Conclusions

That having perused and reviewed the *Mombasa County Fiscal Strategy Paper 2018* the Committee agrees with the County Treasury with some exceptions outlined throughout the document and at their meeting held on Monday, 14th March 2018 resolved to recommend the same to the county assembly for approval.

4. Recommendations

- 4.1 That the County Treasury to effect all the amendments to the *Mombasa County Fiscal Strategy Paper 2018* as contained in this report.
- 4.2 That this Honourable House approves the *Mombasa County Fiscal Strategy Paper 2018* with amendments as contained in this report.
- 4.3 Mr. Speaker Sir, I beg to move that the honourable members of this Assembly do adopt this report.

Signed:

Hon. Mohamed Hatimy
Chairman – Committee on Finance, Budget and Appropriations

Dated this Wednesday, 14th of March 2018